

**REPORT OF**  
**MISSOURI PUBLIC ENTITY RISK**  
**MANAGEMENT FUND**  
**DECEMBER 31, 2003 and 2002**

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Missouri Public Entity Risk Management Fund.

We have audited the accompanying balance sheet of the Missouri Public Entity Risk Management Fund (MOPERM) as of December 31, 2003, and the related statements of operations and changes in retro return reserve and cash flows for the year then ended. These financial statements are the responsibility of MOPERM's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MOPERM as of December 31, 2002, were audited by other auditors whose report dated February 21, 2003, expressed an unqualified opinion on such financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Public Entity Risk Management Fund as of December 31, 2003, the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis and the supplementary schedule are presented for additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Williams Keepers LLC*

February 6, 2004

Except for loss and loss adjustment expense reserves  
which is dated April 20, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Missouri Public Entity Risk Management Fund (MOPERM) offers this narrative overview and analysis of the financial activities of MOPERM for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the basic financial statements to enhance their understanding of MOPERM's financial performance.

### **Fund Accounting**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is not considered to be a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. MOPERM's funds are considered proprietary funds.

*Proprietary funds.* Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers of the provision of those goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: Enterprise Fund. MOPERM's purpose is to provide liability and property insurance coverage to participating public entities, their officials and employees.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Fund's basic financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as the Fund uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The basic financial statements, in addition to Management's Discussion and Analysis, are comprised of the Balance Sheet; the Statement of Operations and Changes in Retro Return Reserve; the Statement of Cash Flows; and the Notes to Financial Statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The Balance Sheet presents MOPERM's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as retro return reserves. The retro return reserves of MOPERM reflect the resources available as of the end of the fiscal year to pay claims of participants when due. Over time, increases and decreases in retro return reserves measure whether MOPERM's financial position is improving or deteriorating.

The Statement of Operations and Changes in Retro Return Reserves presents information detailing the revenues and expenses that resulted in the change in retro return reserves that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that

will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The Statement of Cash Flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the balance sheet. The effects of accrual accounting are adjusted out and noncash activities, such as depreciation, are removed to supplement the presentation in the Statement of Operations and Changes in Retro Return Reserves.

The Notes to Financial Statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past ten years of earned revenues and investment income compared to related costs of loss and other expenses assumed by MOPERM.

### Financial Analysis

The following tables present the summarized financial position and results of operations for the fiscal years ending June 30, 2003 and 2002. Additional details are available in the accompanying basic financial statements.

	2003	2002	Increase (Decrease)
<b>ASSETS</b>			
Cash and investments	\$ 39,780,552	\$ 33,611,290	\$ 6,169,262
Receivables	420,158	367,838	52,320
Capital assets	579,135	662,855	(83,720)
Other	100,551	19,042	81,509
Total Assets	<u>\$ 40,880,396</u>	<u>\$ 34,661,025</u>	<u>\$ 6,219,371</u>
<b>LIABILITIES</b>			
Loss and loss adjustment expense	\$ 17,826,106	\$ 13,440,922	\$ 4,385,184
Other	6,289,498	5,349,813	939,685
Total Liabilities	<u>24,115,604</u>	<u>18,790,735</u>	<u>5,324,869</u>
<b>RETRO RETURN RESERVE</b>			
Designated catastrophic reserves	14,210,765	12,338,625	1,872,140
Invested in capital assets	579,135	663,855	(84,720)
Undesignated	1,974,892	2,867,810	(892,918)
Total Retro Return Reserve	<u>16,764,792</u>	<u>15,870,290</u>	<u>894,502</u>
Total Liabilities and Retro Return Reserve	<u>\$ 40,880,396</u>	<u>\$ 34,661,025</u>	<u>\$ 6,219,371</u>

- Total assets increased by \$6,219,371 in 2003 to \$40,880,396. MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. Effective July 1, 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. This line of coverage is administered through the Arthur J. Gallagher

Company. MOPERM added 65 new members to the pool in 2003, which increased cash and investments due to the additional contributions from the new members. The property line of business performed well for the first six months, which also contributed to the asset growth of the fund.

- Total liabilities increased by \$5,324,869 in 2003 to \$24,115,604. The increase in liabilities was primarily associated with an increase in loss and loss adjustment reserves for the liability line of business. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary.
- Retro Return Reserves for 2003 increased by net income of \$1,433,918 and decreased by refunds to members of \$539,495, resulting in a net increase of \$894,502. MOPERM has refunded over \$6 million of contributions to the participating members over the past several years.

	2003	2002	Increase (Decrease)
<b>OPERATING REVENUES</b>			
Contributions	\$ 12,480,933	\$ 10,302,982	\$ 2,177,951
Investment income	1,277,148	1,443,306	(166,158)
Other (expenses) income	(227)	(609)	382
Total Operating Revenues	13,757,854	11,745,679	2,012,175
<b>OPERATING EXPENSES</b>			
Loss and loss adjustment expense	9,986,504	7,960,681	2,025,823
Excess insurance premiums	58,521	36,233	22,288
General and administrative	1,795,366	1,552,038	243,328
Total Operating Expenses	11,840,391	9,548,952	2,291,439
Net Operating Income	1,917,463	2,196,727	(279,264)
Unrealized gain (loss) on investments	(483,545)	94,598	(578,143)
Net Income	\$ 1,433,918	\$ 2,291,325	\$ (857,407)

- Contributions earned for 2003 increased by \$2,177,951. \$137,081 of such increase is attributed to the property line of business, with the remainder of the increase due to an increase in membership for the liability line of business.
- Net investment income decreased by \$744,301 in 2003. MOPERM has invested approximately \$36 million, primarily in U.S. Government Agency Securities with final maturities of five years or less with a one time call. Investment income for 2003 decreased by \$166,158, which consists of interest income, amortization of premium and discounts on bonds, and realized gains and losses on securities. There was an unrealized gain on investments in 2002 of \$94,598. Because of the change in the investment market, MOPERM experienced an unrealized loss on investments of (\$483,545) for 2003.
- General operating expenses approximated 14% and 15% of total contributions earned for 2003 and 2002, respectively.

## **FINANCIAL SUMMARY**

In 2003, MOPERM added 65 new members, resulting in a \$2,177,951 increase in contribution revenues. The increase in members is the result of MOPERM's competitive rates for coverage and the addition of the property line of business on July 1, 2003, which generated \$137,081 of contributions during 2003. Compared to 2002, operating income decreased by \$857,407, primarily because of the net investment loss of \$744,301, due to the change in the investment market. Retro return reserves were increased by \$894,502 (\$1,433,918 net income less \$539,416 refunds to members). MOPERM's budget for 2004 reflects continued anticipated growth in the liability and property lines of business.

## **FINANCIAL STATEMENTS AND RELATED FOOTNOTES**



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## BALANCE SHEETS

**DECEMBER 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,491,866	\$ 4,250,770
Investments	36,288,686	29,360,520
Deposits and accounts receivable other than contributions	67,906	40,557
Accrued interest on investments	331,516	322,704
Contributions in course of collection	20,736	4,577
Prepaid expenses	100,551	19,042
Capital assets (net of accumulated depreciation of \$783,843 in 2003 and \$622,094 in 2002)	<u>579,135</u>	<u>662,855</u>
<b>Total assets</b>	<u>\$ 40,880,396</u>	<u>\$ 34,661,025</u>
<b>Liabilities and Retro Return Reserve</b>		
<b>Liabilities:</b>		
Loss and loss adjustment expense reserves	\$ 17,826,106	\$ 13,440,922
Advance contributions	5,591,754	4,846,680
Retro return reserve refunds payable	539,495	412,947
Accounts payable and accrued expenses	<u>158,249</u>	<u>90,186</u>
<b>Total liabilities</b>	<u>24,115,604</u>	<u>18,790,735</u>
<b>Retro return reserve (unrestricted):</b>		
Designated catastrophic reserves	14,210,765	12,338,625
Invested in capital assets	579,135	663,855
Undesignated	<u>1,974,892</u>	<u>2,867,810</u>
<b>Total retro return reserve (unrestricted)</b>	<u>16,764,792</u>	<u>15,870,290</u>
<b>Total liabilities and retro return reserve</b>	<u>\$ 40,880,396</u>	<u>\$ 34,661,025</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
STATEMENTS OF OPERATIONS AND CHANGES  
IN RETRO RETURN RESERVE**

**FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Revenues:		
Contributions	\$ 12,480,933	\$ 10,302,982
Investment income	1,277,148	1,443,306
Other (expense) income	<u>(227)</u>	<u>(609)</u>
Total operating revenues	<u>13,757,854</u>	<u>11,745,679</u>
Expenses:		
Loss and loss adjustment expenses	9,986,504	7,960,681
Excess insurance premiums	58,521	36,233
General and administrative	<u>1,795,366</u>	<u>1,552,038</u>
Total operating expenses	<u>11,840,391</u>	<u>9,548,952</u>
Net operating income	1,917,463	2,196,727
Unrealized gain (loss) on investments	<u>(483,545)</u>	<u>94,598</u>
Net income	1,433,918	2,291,325
Retro return reserve, beginning of year	15,870,290	13,991,799
Refunds to members	<u>(539,416)</u>	<u>(412,834)</u>
Retro return reserve, end of year	<u>\$ 16,764,792</u>	<u>\$ 15,870,290</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND**  
**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Contributions collected	\$ 13,209,847	\$ 11,181,222
Loss and loss adjustment expenses paid	(5,628,669)	(5,908,492)
Payments to suppliers and excess insurer	(1,351,302)	(1,109,017)
Payments to employees	(341,161)	(355,256)
Investment income received	1,347,765	1,565,510
Net cash provided by operating activities	<u>7,236,480</u>	<u>5,373,967</u>
Cash flows used in non-capital financing activities -		
Refunds paid to members	<u>(412,868)</u>	<u>(396,666)</u>
Cash flows used in capital and related financing activities -		
Loss from sale of capital assets	-	(8,136)
Purchases of capital assets	<u>(91,378)</u>	<u>(232,292)</u>
Net cash used in capital and related financing activities	<u>(91,378)</u>	<u>(240,428)</u>
Cash flows from investing activities:		
Proceeds from matured investments	19,440,000	22,955,000
Investments purchased	<u>(26,931,138)</u>	<u>(26,782,351)</u>
Net cash used in investing activities	<u>(7,491,138)</u>	<u>(3,827,351)</u>
Change in cash and cash equivalents	(758,904)	909,522
Cash and cash equivalents, beginning of year	<u>4,250,770</u>	<u>3,341,248</u>
Cash and cash equivalents, end of year	<u>\$ 3,491,866</u>	<u>\$ 4,250,770</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	<u>\$ 1,433,918</u>	<u>\$ 2,291,325</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	174,862	180,884
Realized (gains) losses on capital assets	227	609
Accretion of discounts and amortization of premiums, net	34,594	17,477
Realized (gains) losses on investments	44,842	37,425
Unrealized gain (loss) on investments	483,545	(94,598)
Changes in certain assets and liabilities:		
Decrease (increase) in deposits and accounts receivable other than contributions	(27,349)	(9,556)
Decrease (increase) in accrued interest on investments	(8,812)	67,302
Decrease (increase) in contributions in course of collection	(16,159)	2,001
Decrease (increase) in prepaid expenses	(81,509)	354
(Decrease) increase in loss and loss adjustment expense reserves	4,385,184	2,061,745
(Decrease) increase in advance contributions	745,074	876,239
(Decrease) increase in accounts payable and accrued expenses	<u>68,063</u>	<u>(57,240)</u>
Net adjustments	<u>5,802,562</u>	<u>3,082,642</u>
Net cash provided by operating activities	<u>\$ 7,236,480</u>	<u>\$ 5,373,967</u>

The accompanying notes are an integral part of these financial statements.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

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### 1. Reporting Entity

The Missouri Public Entity Risk Management Fund ("MOPERM") is a corporate and political body created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for appointing some of the members of the Board of Trustees, the State's accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. The property coverage underwriting is being administered through Arthur J. Gallagher of St. Louis, Missouri. MOPERM had a total of 802 and 756 participants, including cities, counties, healthcare entities and school districts as of December 31, 2003 and 2002, respectively.

The Fund uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

### 2. Basis of Accounting and Summary of Significant Accounting Policies

#### Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred. MOPERM applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict GASB pronouncements.

#### Cash and Cash Equivalents

Cash and cash equivalents on the balance sheet and in the statement of cash flows consist of cash on hand and overnight repurchase agreements. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution's trust department or agent in the Fund's name. The carrying amounts reported in the balance sheets approximate the fair value of these instruments.

#### Investments

MOPERM follows the provisions of Statement No. 31 of the Government Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires government entities to report certain investments at fair value, with

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

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### ***NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)***

the changes in fair value reported in the Statements of Operations and Changes in Retro Return Reserve. The estimated fair value of fixed maturity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

MOPERM's investment policy allows investments in: Time Deposits with a maturity of twenty four months or less, U.S. Treasury Securities with final maturities of five years or less, U.S. Government Agency Securities with final maturities of five years or less, Collateralized Mortgage Obligations, that have a weighted average life not to exceed three years and pass the FFIEC High Risk Stress Test, Commercial Paper that may not exceed 180 days to maturity and Repurchase Agreements.

### **Capital Assets**

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets.

	<b>Depreciable Life</b>
Automobiles	3 years
Equipment and leasehold improvements	5 years
Furniture and fixtures	10 years

### **Contributions**

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are calculated based on actuarial projections to produce sufficient funds to pay losses and expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM.

### **Retro Return Reserve Refunds**

If collected contributions exceed total paid claims, claim expenses and operating expense in any given year, the Board of Trustees may declare a refund of the excess be made to participants who were members of MOPERM during the policy year for which a refund was declared. Unless otherwise

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

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### ***NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)***

determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

#### **Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

#### **Designated Catastrophic Reserves**

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balance at December 31, 2003 is equivalent to 15% of the earned contribution for all policy years since MOPERM's inception. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments would be made to applicable members for the policy year the losses occurred. However, if after twenty years the funds have not been expended for catastrophic losses, the Board of Trustees may declare a refund to participants who were members of MOPERM during the policy year for which a refund was declared.

#### **Operating and Non-operating Income and Expenses**

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

#### **Income Taxes**

The Internal Revenue Service ruled that MOPERM is exempt from federal income tax under Section 115 of the Internal Revenue Code.

#### **Management's Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### 3. Cash and Investments

The following information summarizes the difference between amortized cost and estimated fair value of MOPERM's fixed maturity investments:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>December 31, 2003</b>				
U.S. Government and Agencies	<u>\$ 36,139,185</u>	<u>\$ 255,634</u>	<u>\$ (106,133)</u>	<u>\$ 36,288,686</u>
<b>December 31, 2002</b>				
U.S. Government and Agencies	<u>\$ 28,727,473</u>	<u>\$ 656,322</u>	<u>\$ (23,275)</u>	<u>\$ 29,360,520</u>

Realized gains and losses on investments for the years ended December 31, are as follows:

	<u>2003</u>	<u>2002</u>
Realized gains	\$ 7,248	\$ 1,924
Realized losses	<u>(52,090)</u>	<u>(39,349)</u>
Net realized losses	<u>\$ (44,842)</u>	<u>\$ (37,425)</u>

The amortized cost and estimated fair value of investments in fixed maturity securities at December 31, 2003, by contractual maturity, are as follows:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 2,196,331	\$ 2,236,425
Due after one year through five years	<u>33,942,854</u>	<u>34,052,261</u>
	<u>\$ 36,139,185</u>	<u>\$ 36,288,686</u>

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

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### *NOTE 3 – Continued (Cash and Investments)*

Cash held in financial institutions had a bank balance of \$371,156 and \$352,683, as of December 31, 2003 and 2002, respectively. The carrying value of such deposits as of December 31, 2003 and 2002 was (\$472,619) and \$91,558, respectively. FDIC insures \$100,000 of the bank balances, with the remainder of the balances being collateralized with securities held by the pledging financial institution's trust department or agent in the Fund's name. The remainder of cash and cash equivalents are held in repurchase agreements as discussed below. The bank overdraft of \$472,619 at December 31, 2003 is offset by the repurchase agreements as discussed below.

MOPERM's investments consist of repurchase agreements that are carried at cost (principal plus accrued interest). The fair value of securities pledged to secure the agreements equals or exceeds the carrying amount of the agreements. MOPERM's investments at year-end are categorized to give an indication of the level of custodial risk assumed by MOPERM. The categories are as follows:

A: Insured or registered in MOPERM's name, or securities held by MOPERM's agent in MOPERM's name.

B: Uninsured and unregistered, with securities held by the counter party financial institution's trust department or agent in MOPERM's name.

C: Uninsured and unregistered, with securities held by the counter party financial institution's trust department or agent, but not in MOPERM's name.

Investments, categorized by level of custodial risk, were as follows as of December 31, 2003:

	<b>Carrying Value</b>	<b>Bank Balance</b>	<b>Category</b>
Repurchase agreements	\$ 3,964,485	\$ 3,964,485	A
Government agencies	36,288,686	36,288,686	A

Investments, categorized by level of custodial risk, were as follows as of December 31, 2002:

	<b>Carrying Value</b>	<b>Bank Balance</b>	<b>Category</b>
Repurchase agreements	\$ 4,159,212	\$ 4,159,212	A
Government agencies	29,360,520	29,360,520	A



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

### 4. Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

Category	Balance at December 31, 2002	Additions	Deductions/ Transfers	Balance at December 31, 2003
Equipment	\$ 48,714	\$ 1,938	\$ -	\$ 50,652
Furniture & Fixtures	61,249	4,078	-	65,327
Computer Equipment & Software	1,046,033	85,362	13,349	1,118,046
Automobiles	49,630	-	-	49,630
Leasehold Improvements	14,323	-	-	14,323
Intangible	-	65,000	-	65,000
Work in Progress	65,000	-	65,000	-
Total Capital Assets	1,284,949	156,378	78,349	1,362,978
Less Accumulated Depreciation	622,094	174,862	13,113	783,843
Capital Assets, Net	\$ 662,855	\$ (18,484)	\$ 65,236	\$ 579,135

Capital asset activity for the year ended December 31, 2002 was as follows:

Category	Balance at December 31, 2001	Additions	Deductions/ Transfers	Balance at December 31, 2002
Equipment	\$ 41,276	\$ 7,438	\$ -	\$ 48,714
Furniture & Fixtures	58,840	2,409	-	61,249
Computer Equipment & Software	441,621	604,412	-	1,046,033
Automobiles	48,008	16,258	14,636	49,630
Leasehold Improvements	14,323	-	-	14,323
Work in Progress	448,590	199,267	582,857	65,000
Total Capital Assets	1,052,658	829,784	597,493	1,284,949
Less Accumulated Depreciation	448,737	180,884	7,527	622,094
Capital Assets, Net	\$ 603,921	\$ 648,900	\$ 589,966	\$ 662,855

Depreciation expense during 2003 and 2002 was \$174,862 and \$180,884, respectively.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

### 5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves is as follows:

	<u>2003</u>	<u>2002</u>
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$-0- in 2003 and 2002	\$13,440,992	\$11,379,177
Incurred loss and loss adjustment expenses:		
Provision for insured events – current yr	9,257,889	7,727,236
Provision for insured events – prior yrs	<u>728,615</u>	<u>233,445</u>
TOTAL incurred loss and loss adjustment expenses	<u>\$9,986,504</u>	<u>\$7,960,681</u>
Payments:		
Loss and loss adjustment expenses attributable to insured events – current yr	\$2,186,599	\$2,600,699
Loss and loss adjustment expenses attributable to insured events – prior yrs	<u>3,414,721</u>	<u>3,298,237</u>
TOTAL payments	<u>\$5,601,320</u>	<u>\$5,898,936</u>
Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$69,693 in 2003 and \$-0- in 2002	<u>\$17,826,106</u>	<u>\$13,440,922</u>

The provision for prior year insured events represents the variations between the Company's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

### 6. General and Administrative Expenses

The most significant components of general and administrative expenses are salary and employee benefit expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System.

MOPERM reimburses the State of Missouri for all costs of administration, including salary costs of \$436,666 for 2003 and \$436,582 for 2002 and pension costs of \$37,906 for 2003 and \$44,352 for 2002.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

### 7. Operating Leases

MOPERM entered into long-term, noncancelable operating lease agreements for office space and equipment. The office space lease, which expired in January 2002, contained an option for one five-year renewal period, which MOPERM exercised. Minimum annual rental commitments under all non-cancelable operating leases are as follows:

2004	\$ 40,125
2005	37,400
2006	37,400
2007	3,116
	<u>\$ 118,041</u>

Rental expense on operating leases totaled \$40,424 and \$40,194 for the years ended December 31, 2003 and 2002, respectively.

### 8. Retro Return Reserve Refunds

During 2003 and 2002, the Board of Trustees of MOPERM declared retro return reserve refunds of \$539,495 and \$412,947, respectively. As of December 31, 2003, cumulative retro return reserve refunds were as follows:

Policy Year	Refunds Declared and Paid Prior to 2003	Refunds Declared and Accrued During 2003	Total Refunds Declared	Percentage of Contributions Refunded
1987	\$ 1,325,620	\$ -	\$ 1,325,620	81%
1988	1,965,155	54,588	2,019,743	74%
1989	473,898	-	473,898	19%
1990	788,288	62,233	850,521	39%
1992	438,891	58,519	497,410	15%
1994	155,373	-	155,373	3%
1995	646,456	235	881,531	11%
1996	-	129,080	129,080	2%
TOTAL	<u>\$ 5,793,681</u>	<u>\$ 539,495</u>	<u>\$ 6,333,176</u>	

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003 and 2002

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### 9. Excess Insurance

MOPERM has maintained various excess insurance coverage with outside insurance carriers for the liability program. From January 1, 1989 through December 31, 1994, coverage was provided on a claims made basis. From January 1, 1995 through July 7, 2002, coverage was provided on an occurrence basis.

During the period from January 1, 2002 through July 7, 2002, the excess liability policy provided coverage of \$100,000 for each occurrence or wrongful act in excess of a \$900,000 self-insured retention limit and an aggregate limit of \$3,000,000 based on a minimum underlying self-insured retention of \$6,000,000. At July 7, 2002, MOPERM had no recoverable due from the excess insurer under the aggregate provision of the policy related to a prior accident year.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability.

Effective July 1, 2003, excess insurance for the property program was purchased with outside carriers.

The property excess policy, with Allianz, provides coverage of \$100,000,000 for each occurrence. MOPERM's retention per occurrence is \$25,000 with a \$150,000 annual aggregate. The boiler and machinery excess policy, with Zurich, provides coverage of \$50,000,000 for each occurrence and MOPERM's retention per occurrence is \$10,000 with no annual aggregate. The crime excess policy, with Travelers, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence is \$5,000.

### 10. Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of such litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

## **SUPPLEMENTAL SCHEDULE**

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
SUPPLEMENTAL SCHEDULE OF 1994-2003  
LOSS DEVELOPMENT INFORMATION**

**DECEMBER 31, 2003**

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The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2003. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's cumulative contribution refunds for each policy year.
- (4) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (5) The cumulative net amounts paid as of the end of successive years for each policy year.
- (6) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (7) Each policy year's incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (8) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 4) and shows whether this latest estimate of loss cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT

## SUPPLEMENTAL SCHEDULE OF 1994-2003 LOSS DEVELOPMENT INFORMATION, CONTINUED DECEMBER 31, 2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	\$ 5,836,162	\$ 6,789,504	\$ 7,540,860	\$ 8,020,553	\$ 8,314,302	\$ 8,160,933	\$ 8,900,923	\$ 10,320,770	\$ 11,746,288	\$ 13,758,081
Ceded	132,000	145,200	102,000	102,000	102,000	70,000	70,000	70,000	36,233	58,521
Net earned	5,968,162	6,934,704	7,642,860	8,122,553	8,416,302	8,230,933	8,970,923	10,390,770	11,782,521	13,816,602
(2) Unallocated expenses	550,700	663,314	764,003	983,811	1,040,417	994,573	1,160,371	1,332,197	1,552,038	2,038,646
Policy year ended:										
(3) Contribution refunds, cumulative	-	155,373	881,531	129,080	-	-	-	-	-	-
(4) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	3,884,330	4,407,662	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,099	7,727,237	9,257,889
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	3,884,330	4,407,662	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,099	7,727,237	9,257,889
(5) Net paid losses (cumulative) as of:										
End of policy year	1,003,692	1,123,438	1,113,086	1,199,097	1,397,016	1,493,067	1,648,659	1,745,939	2,600,699	2,186,316
One year later	1,422,283	1,825,745	1,745,076	2,086,739	1,968,625	2,226,225	2,629,100	2,219,176	3,367,802	-
Two years later	1,896,416	2,277,299	3,176,650	2,874,212	3,187,766	3,369,015	3,756,516	3,040,750	-	-
Three years later	3,054,644	2,664,334	4,113,699	4,247,177	5,020,185	3,951,688	4,402,095	-	-	-
Four years later	3,442,046	3,253,094	4,408,518	4,714,633	5,868,584	4,554,198	-	-	-	-
Five years later	3,617,363	3,482,703	5,146,833	4,815,733	6,429,313	-	-	-	-	-
Six years later	4,756,237	3,638,339	5,282,994	4,837,824	-	-	-	-	-	-
Seven years later	4,884,336	3,660,046	5,327,419	-	-	-	-	-	-	-
Eight years later	4,890,639	3,667,949	-	-	-	-	-	-	-	-
Nine years later	4,901,212	-	-	-	-	-	-	-	-	-
(6) Re-estimated ceded loss and loss adjustment expense	-	-	-	-	-	-	-	-	-	-
(7) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	3,884,330	4,407,662	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889
One year later	3,884,330	4,407,662	4,840,506	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	-
Two years later	3,884,330	4,407,662	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	-	-
Three years later	3,884,330	4,407,662	4,840,507	5,074,954	5,950,981	5,126,045	5,448,430	-	-	-
Four years later	3,884,330	4,231,355	5,227,747	5,074,954	6,227,771	5,467,782	-	-	-	-
Five years later	3,987,912	4,055,049	5,421,368	5,142,620	6,435,363	-	-	-	-	-
Six years later	4,920,152	3,878,742	5,421,368	5,142,620	-	-	-	-	-	-
Seven years later	4,920,152	3,790,589	5,421,368	-	-	-	-	-	-	-
Eight years later	4,920,152	3,790,589	-	-	-	-	-	-	-	-
Nine years later	4,920,152	-	-	-	-	-	-	-	-	-
(8) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	1,035,822	(617,073)	580,861	67,666	1,245,554	341,737	-	-	-	-